Eli Lilly and Company

Global Shared Services Implementation Project Overview
SSON Conference
Mar 2014

Agenda

- Who is Eli Lilly and Company?

- Project Overview

- Implementation Methodology and Lessons Learned

  - Sequencing of Milestones

  - Implementation Team Structure

  - ERP Platform Implementation and IT Partnership

  - Communication and OCM Efforts

  - Global Process Standardization

  - HR Strategy

- Steady State Organization and Governance

Eli Lilly and Company

- A leading innovation-driven pharmaceutical corporation

- Applying the latest research from its own worldwide laboratories

- Collaborating with eminent scientific organizations and making use of the most up-to-date technological tools

- Providing answers to meet some of the world's most urgent and unmet medical needs

Global Fast Facts
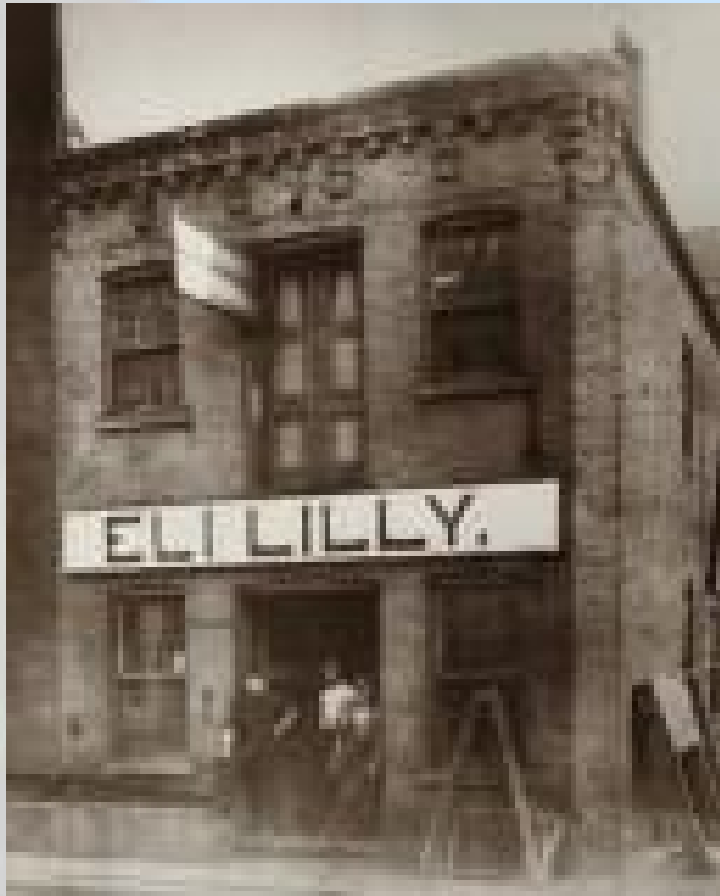
- A heritage more than 135 years strong, founded on May 10, 1876
- Headquarters located in Indianapolis, Indiana, U.S.A.
- Approximately 38,000 employees worldwide
- Approximately 7,700 employees engaged in research and development
- Clinical research conducted in more than 55 countries
- Research and development facilities located in 8 countries
- Manufacturing located in 13 countries
- Products marketed in 125 countries

Lilly Finance, Pre Shared Services (2010)

- Financial operations in ~70 countries
  - Local teams self sufficient, full range of responsibility: GA, P2P, O2C, Payroll, Planning, Mgmt Reporting, Treasury

- Accounting Systems
  - Largest 20 countries on SAP, implemented '99-'04
  - Each country had authority to customize SAP to meet local needs
  - Remaining ~50 countries operated in 5-6 different accounting systems, consolidated financial results through "Non-SAP" process

- Organization
  - 1,250 Finance & Procurement employees; $260m in annual opex
    - Larger affiliates: 20-25 financial employees
    - Smaller affiliates: 10-15 financial employees
    - Remaining financial employees at Corporate Center

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Project Overview

- Shared Services project driven by Corporate objective to improve operational efficiency:

  - Streamline and redesign corporate G&A orgs to support the business through improved quality, strong customer service and reduced costs

  - Reduce the company's operating cost structure by $1 billion and lower global headcount by ~5,000 (12%)

  - Mandate from CFO to utilize Shared Service model to reduce Financial headcount and opex by ~20%

  BURNING PLATFORM – Patent Expiry for two biggest products, Zyprexa (Oct '11) and Cymbalta (Dec '13)

Lilly Finance, Post Shared Services

- Financial operations in ~70 countries
  - Local teams dependent upon GSSCs for majority of transactional activity
  - Treasury operations reduced from ~250 local banking relationships to ~50, with 4 key regional banks holding >90% of cash
- Accounting Systems
  - All countries on single instance of SAP
  - Global standard processes in place, with exceptions made for local legal and regulatory needs
- Organization
  - 1,050 Finance & Procurement employees → 16% reduction
  - Annual opex of $230m → $30m reduction

Global Shared Service Centers: Location and Size

North America SSC
Location: Indianapolis, USA
Headcount: ~60
Go live: Q1 2011

Zone 3 SSC
Location: Kuala Lumpur, Malaysia
Headcount: ~50
Go live: Q3 2011 – Q2 2012

Latin America SSC
Location: Mexico City, Mexico
Headcount: ~30
Go live: Q3 2012 – Q1 2013

Zone 2 SSC
Location: Cork, Ireland
Headcount: ~160
Go live: Q2 2011 – Q4 2011

HP BPO Service Centers

	Headcount
- Chennai, India	160
- Wroclaw, Poland	110
- Dalian, China	40

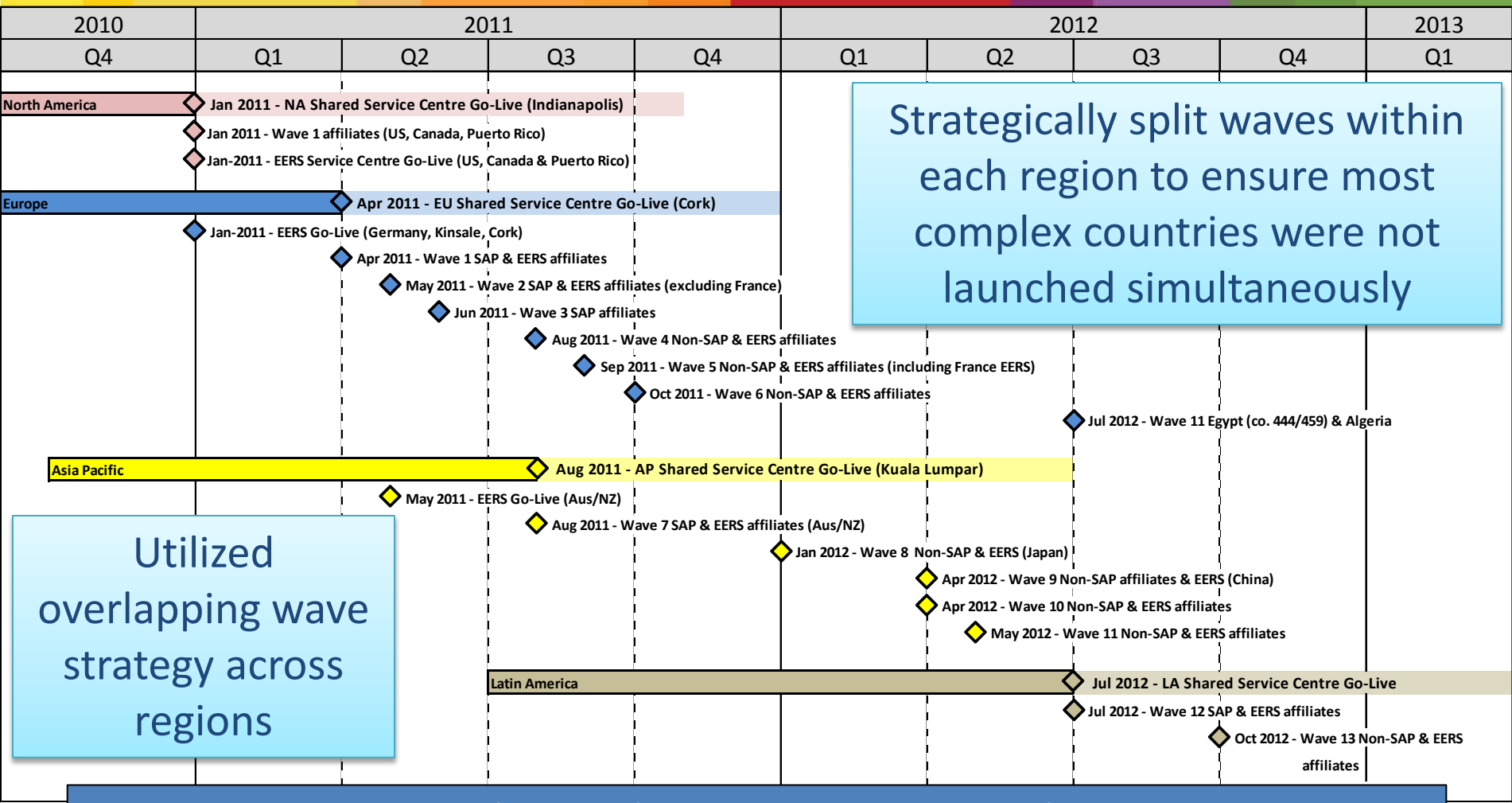Note: Headcount totals include both Lilly headcount and flexible staffing

Global Shared Service Centers: Process Scope

Process Area	Key Activities
Purchase to Pay	Purchase Order Processing, Accounts Payable, Disbursements
Order to Cash	Order Processing, Customer Service, Credit and Collections, Accounts Receivable
Supply Chain	Inventory Replenishment, Inventory Accounting
General Accounting	Account reconciliations, Fixed Asset accounting, monthly closing and reporting
Global Travel Services	Travel Services and Travel Expense Reimbursement and Reporting
Treasury Operations	Cash Management, Bank Relationship Management

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Implementation Schedule
CFO: "Finish by the end of 2012"

2010	2011				2012				2013
Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1

North America
- Jan 2011 - NA Shared Service Centre Go-Live (Indianapolis)
- Jan 2011 - Wave 1 affiliates (US, Canada, Puerto Rico)
- Jan-2011 - EERS Service Centre Go-Live (US, Canada & Puerto Rico)

Europe
- Apr 2011 - EU Shared Service Centre Go-Live (Cork)
- Jan-2011 - EERS Go-Live (Germany, Kinsale, Cork)
- Apr 2011 - Wave 1 SAP & EERS affiliates
- May 2011 - Wave 2 SAP & EERS affiliates (excluding France)
- Jun 2011 - Wave 3 SAP affiliates
- Aug 2011 - Wave 4 Non-SAP & EERS affiliates
- Sep 2011 - Wave 5 Non-SAP & EERS affiliates (including France EERS)
- Oct 2011 - Wave 6 Non-SAP & EERS affiliates
- Jul 2012 - Wave 11 Egypt (co. 444/459) & Algeria

Asia Pacific
- Aug 2011 - AP Shared Service Centre Go-Live (Kuala Lumpar)
- May 2011 - EERS Go-Live (Aus/NZ)
- Aug 2011 - Wave 7 SAP & EERS affiliates (Aus/NZ)
- Jan 2012 - Wave 8 Non-SAP & EERS (Japan)
- Apr 2012 - Wave 9 Non-SAP affiliates & EERS (China)
- Apr 2012 - Wave 10 Non-SAP & EERS affiliates
- May 2012 - Wave 11 Non-SAP & EERS affiliates

Latin America
- Jul 2012 - LA Shared Service Centre Go-Live
- Jul 2012 - Wave 12 SAP & EERS affiliates
- Oct 2012 - Wave 13 Non-SAP & EERS affiliates

> Strategically split waves within each region to ensure most complex countries were not launched simultaneously

> Utilized overlapping wave strategy across regions

Implemented 70 Countries in ~30 months

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Sequence of Milestones

- Detailed project planning
  - Developed thorough project plan – most important early on to align teams, set expectations, and build momentum
  - Consistent sequence of events across regions and towers
  - Rigid adherence to the assessment, development, testing, and go live phases
  - Overlapping waves strategy caused issues
    - Key resources pulled in too many directions, later waves suffered due to prioritization of earlier waves
    - Reduced opportunity to make improvements between waves
  - If schedule had permitted, would have run a pilot launch to allow for time to troubleshoot issues before full scale launch

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Sequence of Milestones

- Established resource baseline
  - Conducted detailed country level assessments of activities and resources to establish baseline and improvement targets
  - Potential savings identified by moving as many processes as possible to pre-defined standard model
- Live "Roadshows"
  - Conducted series of two-week workshops, with deliverables for local and global teams before, during, and after sessions
  - Goal was to build, design, and educate on global standardized processes within SAP functionality

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Sequence of Milestones

- SAP and Process Flow Testing
  - Conducted two 6-week testing periods for each region involving local users, SSC personnel, and third party providers to test as many transactional scenarios as feasible
  - Co-located "roadshows" and testing periods allowed for highly productive interactions between local SME's, global implementation teams, and SAP technical leaders
- Training
  - Rolled out training program utilizing multiple avenues – webcasts, train-the-trainer, classroom, and self study
  - Should have created a dedicated training team. Burden of training documentation was greater than anticipated

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Sequence of Milestones

- Go Live
  - Communicated to all internal and external parties a 1 week "blackout" period for conversion to SAP, in which no transactional activity could take place
  - Provided in country support during first 45 day stabilization period
    - Sped up issue resolution and provided supplemental "on the job" training to local retained resources

Team Structure

- Partnered internal Financial and IT implementation leaders by tower and region – created "two in the box" joint accountability for delivery of process design and SAP solution

- Utilized combination of external providers:
  - KPMG : Design and stand up of all aspects of SSC's
  - IBM : Local technical SAP expertise and global/regional oversight of IT implementation
  - HP : Existing BPO partner; provided implementation resources for integration of new geographies and scope into existing operations

Team Structure

- Keys for successful interaction with external firms
  - Didn't allow consultants to own implementation. This is our implementation (and investment), not theirs!
  - External firms worked side by side with Lilly resources, and each other. Each played to their strengths.
  - Lilly owned decisions and controlled both internal and external resource deployment. Underperformers were challenged and switched off the project

Team Structure

- Appointed local resources as process SME's and Transition Leaders. Ensured that resources were a part of the future local retained org

- Utilization of local "Transition Leaders" was greatly beneficial:

  - Established local ownership of implementation

  - Ensured timely local input on issues

  - Enabled learning of the new processes by all retained resources

  - Provided insight to local communication needs

  - Provided leadership opportunities for key local talent

- Part time local resources became bottleneck to desired timeline - local SME's could not do everything in addition to day jobs

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ERP Implementation / IT Partnership

- Strategic decision was made to move all operations to SAP – one ERP system, single global instance – best decision we made!

- Allowed IT to retire multiple disparate financial systems and reduce support requirements

- Facilitates stronger financial/accounting controls and provides single source documentation for compliance needs

- Streamlines internal/external audit processes, resulting in lower audit fees and more efficient internal audits

- Allows for single database for Business Objects management reporting

- Gained training efficiencies due to global standardized processes

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ERP Implementation / IT Partnership

- Stopped all competing IT work for two years within all G&A functions. Made this initiative a top priority!

- Underestimated telecom needs and time to implement complex international requirements with local providers, especially government owned monopolies
  - Call routing between affiliates, SSC's, third parties
  - Call / case tracking
  - Electronic routing of emails, faxes

- Reliance on third parties' abilities to deliver on IT requirements in both quality and speed caused delays. Don't underestimate the time and effort needed to mitigate issues

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Communication and OCM

- Drove "What's in it for me?" message with non-financial management – messages were delivered repeatedly across many forums
- Requested visible management support for difficult changes to come
- Proactively identified audiences for OCM/Communications, including internal and external business partners
  - Identified influential naysayers early and worked to get them on board
- Centralized communications team to ensure consistency of message
  - Developed tailored messages by process, audience and timing
  - Drove strict compliance to roll out of communication plan. Countries that deviated from plan had more issues

Senior Management: "What's in it for ME?"

- Lower operating costs for delivered services
- Leveraged infrastructure and enabling technology investment
  - SAP will be implemented globally
  - Enables automation of some activities that are currently manual
- Improved decision making through shared management practices and standardized data environment
- Accelerated transformation and response to changing business conditions
- Common face to the customer
- End-to-end process integration
- More efficient merger and acquisition integration
- Improved control environment

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Senior Management : Difficult Messages

- Mandate from senior management that SSC is not optional
- Local resources will be impacted
- Change impact goes beyond Finance, touches all employees
  - global standard processes will be implemented at every location
  - only local legal/regulatory exceptions will be accommodated
  - significant change to the way processes are completed today
  - employees will be trained and held accountable to new processes
- Transactions will be supported in a variety of locations (BPO, SSCs, local), no longer all done locally
- Accounting materiality thresholds will be changed to eliminate low-value transactions

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Global Processes

- Process of designing global standard processes was painful and time consuming – but paid huge dividends
  - Documentation included detailed job aids, screen shots, local exceptions, etc.
  - Only allowed exceptions for local legal/regulatory requirements
  - Established strict governance around ongoing change control

- Set SSC performance expectations early
  - Standardized processes could result in lesser service than previous local experience
  - Ensure SLA's are measurable both pre and post implementation. Lack of baseline metrics made it difficult to identify gaps

Global Processes

- Stick to global standardized processes
  - We allowed too much consensus building early on – should have been more tell assertive. Impacted the timeliness of the delivery of training materials
  - Biggest issues today are a result of accepted deviations from standardization
  - Process standardization drove better efficiencies and consistency of performance than we had envisioned
  - Didn't move "broken" processes into the SSC – fix it first

HR Strategy – Local Retained Orgs

- Completed detailed org design for local retained orgs
  - Global Team provided local CFO's with roles needing to be filled, but CFO's selected candidates from within their org
  - While initial headcount targets were imperfect, provided an anchor from which to debate additions / reductions
  - Ensured alignment and CFO commitment to targets one country at a time
- Close collaboration with local HR at all locations to deal with local labor laws, severance options, and timing of exits

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HR Strategy – Local Retained Orgs

- Utilized retention bonus strategy where necessary to encourage displaced employees to not leave before "go live" date
  - Due to transparency with employees regarding exit programs and retention bonuses, retention through implementation was higher than anticipated

- Timing of personnel announcements was key; rumors spread quickly across a region, leading to increased anxiety levels and reduced focus on project completion

HR Strategy – SSCs

- Employed 75/25 permanent / flexible headcount strategy at new locations in order to allow for right sizing later if necessary

- Chose SSC locations with strong technical labor pool, not necessarily lowest cost country within a region

- Offered all displaced Lilly employees across region the opportunity to apply for SSC roles, with condition that they work in SSC (no virtual roles) and switch to local C&B package

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HR Strategy - SSCs

- Staffed with a mix of experienced SSC resources as well as corporate and public accounting candidates
    - Selection of existing local Lilly leaders with knowledge of local economy was critical to effective start up

- Incorporated key elements of Lilly culture to ensure new SSCs are an extended part of local teams - avoid the "us vs. them" mentality

- Recognized that people development and career opportunities were important to attracting and retaining talent. Ensure location and work environment are enticing.
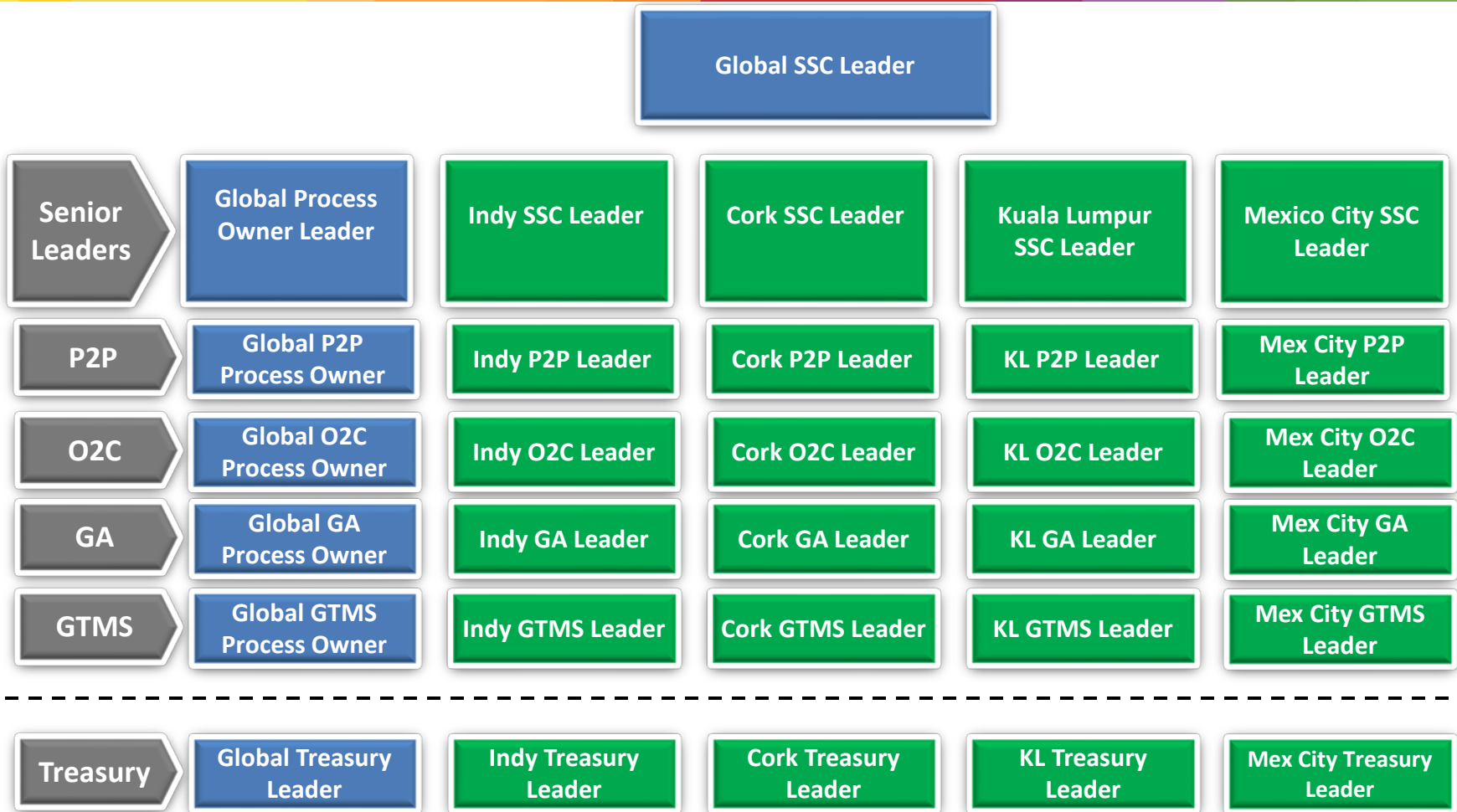
Global Processes - Steady State Governance

- Incorporated role of "Global Process Owner" (GPO) for each tower
  - Own decisions on exceptions to standardized processes
  - Drive global / regional/ local process improvements
  - Recommend and approve/reject process change requests
  - Ensure daily operations adhere to global processes
  - Address any issues identified by internal or external audits
  - Own training for both SSC's and local financial personnel
  - Integrate changing business requirements and acquisitions with SSC operations
  - Own project prioritization decisions and management of IT trouble ticket process

Global SSC Org

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                                          │  Global SSC Leader  │
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Senior Leaders	Global Process Owner Leader	Indy SSC Leader	Cork SSC Leader	Kuala Lumpur SSC Leader	Mexico City SSC Leader
P2P	Global P2P Process Owner	Indy P2P Leader	Cork P2P Leader	KL P2P Leader	Mex City P2P Leader
O2C	Global O2C Process Owner	Indy O2C Leader	Cork O2C Leader	KL O2C Leader	Mex City O2C Leader
GA	Global GA Process Owner	Indy GA Leader	Cork GA Leader	KL GA Leader	Mex City GA Leader
GTMS	Global GTMS Process Owner	Indy GTMS Leader	Cork GTMS Leader	KL GTMS Leader	Mex City GTMS Leader

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Treasury	Global Treasury Leader	Indy Treasury Leader	Cork Treasury Leader	KL Treasury Leader	Mex City Treasury Leader

SSC Tower Leaders have a dotted line relationship with GPO's in order to maintain consistent global practices

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Legend: Global | Regional

Top Three Takeaways

- Enforce standardized processes - participation is NOT an option. Visible senior management support may be necessary to drive change.

- Ensure all project resources are moving the same direction. Tight coordination of activities and deliverables across multiple functions is critical

- Communicate future vision early and often – everyone must understand (and accept) future roles and responsibilities

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Eli Lilly Global Shared Services

Q&A

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